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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF, WITH MINOR MODIFICATIONS, CONTINUANCE OF THE COMPANY'S 2013 DSM IMPLEMENTATION PLAN THROUGH 2015

DOCKET No.: E-01345A-15-0095

ACAA COMMENTS ON THE APS 2015 DEMAND SIDE MANAGEMENT PROPOSAL

COMMENTS OF THE ARIZONA COMMUNITY ACTION ASSOCIATION

Arizona Community Action Association appreciates the opportunity to comment on Arizona Public Service's 2015 Demand Side Management (DSM) plan. As an organization that represents low-income community members, energy efficiency and energy affordability are two key areas of focus and concern. With that in mind, we have observed some serious issues with the prepay pilot program that need to be addressed before it is (approved as a measure).

Primarily at issue with any prepay program is the matter of customers realizing financial savings rather than energy savings. When low-income customers decrease electricity usage on prepaid programs, they do so not out of a better understanding of electricity usage but because of tight budgets and the inability to pay. What has been reported as energy savings is in fact customers experiencing real hardship due to disconnections from an inability to pay for electricity.

The Effect of Disconnections in this Pilot Is Understated. The study put forward by the utility asserts that energy savings are attributable to efficiency and not deprivation, with a reported disconnect effect of 0.08% of total savings. However, the methodology by which this was ascertained is highly suspect. The pilot program itself contains 2,131 unique participants. Of those participants, two-thirds experienced disconnection, with 30% of the customers experiencing disconnection five or more times. In contrast, only 610 customers were used in the savings analysis that was ultimately used to determine the disconnect effect. Of those 610 customers, only 18 had experienced disconnection, resulting in the miniscule and under-reporting of the disconnect effect. In the total program population, more than 1400 customers disconnected. If the sample of customers used for the savings analysis included a proportionate number of customers who had experienced disconnections, the reported disconnect effect would certainly increase, revealing the impact deprivation has on prepaid energy savings.

Health Consequences of Disconnections. As was stated in the end of pilot report, the average disconnection lasted 7.5 hours, and two thirds of all customers experienced disconnections, with 30% disconnecting five or more times. In contrast, postpay customers experienced an average of 0.05 disconnections during the pilot's duration.[1] According to the Arizona Department of Health Services, some areas of the state are exposed to more than 126 days of extreme heat over 100°F. From 2001-2010 more than 28,000 people were hospitalized for heat-related illness, and the CDC proclaims that "air-conditioning is the number one protective factor against heat-related illness and death."[2] To subject more Arizonans to the unsafe summer heat through frequent disconnections is a dangerous proposition.

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[1] APS Prepay Pilot Review, April 2014 Presentation

[2] Choudhary, Ekta & Vaidyanathan, Ambarish (2014). "Heat Stress Illness Hospitalizations — Environmental Public Health Tracking Program, 20 States, 2001–2010" *Surveillance Summaries.* Accessed: http://www.cdc.gov/mmwr/preview/mmwrhtml/ss6313a1.htm. "Extreme Heat Prevention Guide", Center for Disease Control and Prevention. Retrieved from: http://emergency.cdc.gov/disasters/extremeheat/heat_guide.asp

In a national survey, 40% of the households that experienced a power outage reported having to pay to replace spoiled food.[3] With families spending about $100 per week on food, having to replace a full refrigerator of food is a substantial hardship that could be endured as a result of this program.[4] Moreover, the USDA's guidelines on food preservation indicate that refrigerated food is unsafe when the power is out for "no more than four hours," with many meats, cheeses, fruits, and vegetables unsafe for human consumption after two hours.[5] There's no acknowledgement of these risks in the end of pilot report; additionally, the risks of foodborne illness and cost to replace food represent a substantial and needless cost shift for customers who otherwise receive minimal benefits from program participation.

Fees Negate the Financial Savings for Customers. Customer payments are subjected to fees in a manner similar to how the standard bill customers pay processing fees. The majority of prepay customers use kiosk services, which incur a $2.00 fee to pay the bill. The average APS pre-pay customer makes 5 payments per month,[6] and other prepay customers in Arizona make an average of 7 payments per month in the summer.[7] Meanwhile, standard bill customers pay their bill once per month, avoiding nearly $10 in monthly fees experienced by prepay customers. Furthermore, with the reported savings of 1,235 kWh/year or 103 kWh/mo, associated fees substantially diminish the savings in energy costs gained by the customers.

Although it is true that standard bill and prepay customers are subject to the same fees for a given payment, prepay customers purchase their electricity in a fundamentally different way than

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[3] Survey Finds Most Power Outages Contain Associated Costs. (2014, May 7). Retrieved from http://www.marketwatch.com/story/survey-finds-most-power-outages-contain-associated-costs-2014-05-07

[4] Official USDA Food Plan: Cost of Food at Home at Four Levels, U.S. Average, May 2015 (2015, June) Retrieved from http://www.cnpp.usda.gov/sites/default/files/CostofFoodMay2015.pdf

[5] Refrigerated Food and Power Outages: When to Save and When to Throw Out (n. d.) **FoodSafety.gov**, Retrieved from http://www.foodsafety.gov/keep/charts/refridg_food.html

[6] Conversation with Jim Wontor and Sharon Connelly

[7] Paying Upfront: A Review of Salt River Project's M-Power Prepaid Program(2010 October). **Electric Power Research Institute.** Retrieved from http://www.srpnet.com/environment/earthwise/pdfx/spp/EPRI_MPower.pdf

standard bill customers, and as such they are subjected to additional and unfair fees. Given that prepay customers overwhelmingly choose to join the program because of concerns about their budgets or attempting to avoid a deposit payment, inflicting these additional charges on them through the design of the program is especially punitive. If this were to continue, the kiosk fee structure would need to be altered to acknowledge that prepay customers purchase electricity differently than standard bill customers, and as such should not be subjected to the same fees.

Possibility of Customers Not Receiving Notice of Disconnect. Without an in-home display unit, APS prepay customers must rely on phone, email, or text messages to ascertain their balance information. If a customer is in a financially precarious spot and struggling to pay their power bill, it's highly likely that they'll simultaneously have trouble paying their phone or internet bill. If communication were to be disrupted, the customer would have no way of knowing what their account balance is or when they might be disconnected. Furthermore, APS has no way of knowing whether a text message was received or viewed by a client, meaning that they can't verify whether a client knows when a disconnect will occur. This represents a serious risk to comfort, safety, and productivity of a home; more reliable communication should be sought out to communicate disconnection notices. Indeed, these concerns caused the California PUC to reject SDG&E's prepay proposal plan.[8]

Application of E-3 Rate Could Result in Steep Charges. The prepay program is a daily billing program, while the E-3 discount rider is applied to total monthly usage. The discount decreases as usage increases, with significant changes at 400 kWh, 800 kWh, and 1200 kWh.[9] As it is applied now, the current usage for the month is extrapolated and a discount is applied to the extrapolated monthly total. However, if a customer uses more energy than expected toward the end

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[8] Lee, M. (2013, December 2). Regulators frown on prepay utility bills. *The San Diego Union Tribune*. Retrieved July 6, 2015, from http://www.sandiegouniontribune.com/news/2013/Dec/02/frown-utility-bills/

[9] APS Rate Rider Schedule E-3 Residential Service Energy Support Program

of the month, their usage could increase into the next discount block, causing a decrease in the E-3 rate applied. This would have the effect of adding an additional charge to the customer's bill, much larger than they typically pay for a given day's energy. As a result, low-income customers could be subjected to shutoff as a result of the application of the discount rider which was intended to give them relief from burdensome energy bills. To illustrate the problem, customers using between 401kWh and 800 kWh receive 45% discount off their bill, while customers using 801 kWh to 1200 kWh receive 26% discount off their bill. In the most extreme case, an E-3 customer on the E-12 rate could be projected to use 800 kWh of electricity, expecting an energy charge of $52, but instead they use 801 kWh, precipitating an energy charge of $70 (for simplicity's sake, this is only calculating the energy charge; additional tariffs and fees would be present on an actual bill). In this case, a single kilowatt-hour could cause an $18 jump in the client's bill. At the very least, customers on the E-3 discount rider should be alerted when they are about to cross over the discount threshold.

Information Needed to Improve the Survey. It's useful to see that the prepay customers' behavior was influenced by being on the prepay program. However, the survey listed in the end of pilot report doesn't provide sufficient context to understand how the program influenced behavior: did the program provide greater energy education, or were customers running out of money and forced to deprive themselves? Without survey questions delving into the motivation of the behavior change, we don't know if energy education or lack of money to pay the cost was the driving factor in the change in electricity consumption. Furthermore, although many customers responded in the survey that they chose prepaid electricity to manage finances or avoid paying a deposit, none of the surveys asked if customers would prefer another method of paying arrearages through a reasonable payment agreement versus taking a service option that entails automatic disconnection as billing credits expire.

Prepay Functions as a Collections Program. By eliminating the ability of a customer to run up a debt and automatically disconnecting a customer who has a zero balance, the utility is able to save significantly on billings and collections. Recognizing the fact that the prepay customers have decreased their cost of service, the customers should see a reduction in charges. Indeed, NASUCA resolved that rates for prepaid service should be "lower than rates for comparable credit-based service, reflecting the lower costs associated with reduced cash working capital requirements, uncollectibles amounts and shareholder risk affecting a utility's return on equity."[10]

Possible Improvements. This program represents an opportunity to better engage customers about energy education and usage. It's important to "meet customers where they are," in part by helping to demystify energy waste, from "vampire" power to needless heating and cooling of empty homes.[11] Energy saving tips, sent on an opt-in basis, would provide an opportunity for ongoing education to ensure customers are continuing to be engaged in and intentionally saving energy. Energy efficient appliances or energy savings kits would further encourage energy savings, educating customers on how simple appliance changes can use significantly less energy. Additionally, if a significant population in a multifamily building has prepaid electricity, multifamily energy efficiency upgrades would provide a roadmap on how to manage energy use while decreasing energy consumption.

Conclusion. The program as it stands has substantial issues. The primary concern that ACAA has with prepaid electric service is customers experiencing deprivation and disconnection, with the decreased consumption counted as energy savings for the utility. Although the report

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[10] RESOLUTION 2011-3, "URGING STATES TO REQUIRE CONSUMER PROTECTIONS AS A CONDITION FOR APPROVAL OF PREPAID RESIDENTIAL GAS AND ELECTRIC SERVICE-2011-03" National Association of State Utility Consumer Advocates. Approved June 28, 2011. Retrieved from http://nasuca.org/urging-states-to-require-consumer-protections-as-a-condition-for-approval-of-prepaid-residential-gas-and-electric-service-2011-03/

[11] Garthwaite, J. (2014, June 6). Prepay Plans for Electricity Offer Alternative to the Usual Monthly Power Bill. *National Geographic*. Retrieved from http://news.nationalgeographic.com/news/energy/2014/06/140604-pre-paid-electricity-billing-plans-help-or-hurt-consumers/

attempts to calculate the disconnect effect, the analyzed sample population is not representative of the overall prepay customer population. It's clear that disconnections played a much greater role in the program savings than has been calculated. Until that value is better understood this program represents a substantial risk to the comfort and safety of customers. More generally, this program represents significant costs for the customer while providing minimal benefits. Without more substantial benefits to the participant, this program should not be approved as a measure.

Respectfully Submitted this 2nd day of October 2015 by:

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